

# Note Worthy

**QUOTABLE:** “Commercial real estate is still losing ground. Any hopes for a turnaround have to wait for improvements in the financial environment and employment.”

—D’Ann Petersen, Dallas Fed business economist

## TEXAS EXPORTS: NAFTA Markets Spur Trade Turnaround

Upturns in the Mexican and Canadian economies, coupled with the dollar’s declining value, fed strong Texas export growth in the second half of 2009. The state’s real exports increased 15.8 percent from the second to fourth quarter, and the United States’ NAFTA partners played a key role.

Mexico is Texas’ largest export market, accounting for 35 percent of the state’s foreign sales. The volume of Texas exports to Mexico rose 19.7 percent in the last half of 2009, mirroring Mexico’s increased domestic production. Sales to Canada, which constitute 8 percent of Texas’ exports, rose 17.1 percent in the same period.

After growing an average of 2.6 percent a quarter over the period 2004 to mid-2008, real Texas exports fell 20 per-

cent from second quarter 2008 to first quarter 2009. Texas has now had two quarters of sharply higher foreign sales, suggesting a return to the steady export growth the state had experienced before the recession.

Petroleum and coal products played an important part in Texas’ exports turnaround, rising 61 percent since March 2009. Consisting primarily of refinery products, this category has grown rapidly in recent years, expanding its share of Texas exports from 4.2 percent in first quarter 2004 to 13.8 percent at the end of 2009. Most petroleum and coal products are sold to Mexico and Canada, further linking Texas exports to the NAFTA partners’ economic performance.

—Emily Kerr

## OIL MARKETS: Saudis Abandon WTI Price as Benchmark

Saudi Arabia’s state-owned oil company no longer uses West Texas Intermediate (WTI) crude oil as its pricing benchmark. Saudi Aramco, the third largest U.S. oil supplier, switched to the Argus Sour Crude Index (ASCI) in January.

ASCI is a composite price index of three Gulf of Mexico crudes—Mars, Poseidon and Southern Green Canyon. These are heavy, sour crudes, meaning they have higher sulfur content, and they’re similar to the oil the Saudis export to the U.S., where about 60 percent of refineries process sour crude.

Sour crudes generally sell at a discount from the light, sweet WTI, which is cheaper to refine. However, WTI prices are affected by storage levels at the crude’s Cushing, Okla.,

delivery depot. In early 2009, a surge in Cushing inventories depressed WTI prices against other benchmarks. At one point, WTI traded below some sour crudes, including Mars.

Price swings caused by storage levels suggest the WTI price may not always reflect supply and demand fundamentals. In addition, volatility in price differentials between WTI and sour crudes complicates hedging for sour crude buyers—an issue that using ASCI may solve.

The Chicago Mercantile Exchange recently introduced futures contracts designed to mirror ASCI. A deeper market for ASCI and similar futures contracts makes it more likely that other sour crude producers will use the benchmark.

—Jackson Thies

## HOUSING: Tax Credit Boosting Sales, Building—for Now

In both Texas and the U.S., existing-home sales have been rising since March 2009—due in part to a tax credit of up to \$8,000 for first-time homebuyers.

The National Association of Realtors estimates the tax credit drove 350,000 purchases in 2009 and added 26,900 new Texas buyers through September. A Congressional Research Service (CRS) study suggests a smaller impact, with the credit spurring 43,000 to 128,000 additional sales nationwide.

The program had been scheduled to expire on Dec. 1, but in November Congress extended the deadline to July 1, 2010. It also raised the income limits and added a credit of up to \$6,500 for repeat homebuyers. The CRS predicts that the extension will generate an additional 51,000 to 154,000 sales.

The tax credit has also helped stimulate construction. Texas single-family permits increased 16.6 percent from December 2008 to November 2009, a rebound from a 32.6 percent decline in the same period a year earlier.

Year-over-year, November permits rose 14.1 percent as homebuyers rushed to buy before the credit’s initial expiration. In the U.S., November permits were up 22.4 percent year-over-year.

The credit’s long-term effects are ambiguous. The credit makes homebuyers act now rather than later, so demand for new and existing homes will most likely decline after July, placing downward pressure on sales and construction.

—Mike Nicholson